

MINUTES

BOARD OF TRUSTEES OF THE
PUBLIC EMPLOYEES' RETIREMENT FUND
143 West Market Street, Suite 500
Indianapolis, IN 46204

April 20, 2001

Trustees Present

Richard Doermer, Chair
Nancy Turner, Vice Chair
Jonathan Birge
Teresa Ghilarducci

Trustees Absent

Steven Miller

Others Present

Mike Gery, Executive Assistant to the Governor
Diana Hamilton, Special Liaison to the Governor for Public Finance
Mary Beth Braitman, Ice Miller
Stephanie Grieser, Wm. M. Mercer Investment Consulting
Micah Fannin, Wm. M. Mercer Investment Consulting
Richard Boggs, Burnley Associates
Doug Todd, McCready & Keene, Inc.
Elaine Beaty, McCready & Keene, Inc.
Karen Franklin, National City Bank
Faith Berning, National City Bank
Brian R. Loveless, National City Bank
Jim Sperlik, Legislative Services
E. William Butler, PERF Executive Director
Patricia Gerrick, PERF Chief Investment Officer
Jim Osborn, PERF Program Director
Eric Swank, Ice Miller (Acting as PERF Counsel)
Diann Clift, PERF MIS Director
Patrick Lane, PERF Director of Communications
William Hutchinson, PERF Division Director, Pension Administration
David Yeater, PERF Controller
Linda Stahl, Recording Secretary

ITEMS MAILED TO THE BOARD PRIOR TO MEETING

A. Agenda of April 20, 2001 Meeting

- B. Minutes:
 - ❑ March 9, 2001 Board Meeting
- C. Reports, Summaries or Memorandums Regarding:
 - ❑ Tuition Reimbursement
 - ❑ Staff Development
 - ❑ Telecommunications Assessment
 - ❑ Alternative Investment Consultant
- D. 1st Quarter Statistical Reports
- E. 1st Quarter Financial Statements

A quorum being present, the meeting was called to order.

1. MINUTES APPROVAL

MOTION duly made and carried to approve the Minutes of the March 9, 2001 meeting of the Board of Trustees.

Proposed by: Jonathan Birge

Seconded by: Nancy Turner

Votes: 4 for, 0 against, 0 abstentions (Miller absent for vote)

2. BOARD DISCLOSURES

Richard Doermer – Bank One stock ownership

3. ADMINISTRATIVE

Introduction

Jim Osborn was introduced as PERF's new Program Director. Mr. Butler noted that Jim brings experience from the Attorney General's Office and the City Prosecutor's Office. He will be working primarily on policy development and project prosecution. He will also lend assistance in the legal area as needed.

Ethics Policy Revision

The Board's Ethics Policy, adopted June 8, 2000, captures the notion that employees cannot be reimbursed for travel, lodging or other expenses in connection with travel if those expenses are paid for by a third party, typically the conference sponsor. Such policy creates two problems:

- PERF is forced to contact the conference sponsor or the paying entity to determine the expenses the sponsor would be paying on behalf of the PERF employee. That amount would then be paid to the conference who would in turn reimburse PERF. Such procedure creates an unnecessary duplication of check exchange.

- Conference sponsors will typically reserve a block of rooms, and it is not easy for them to split out a “per room”, “per person” rate.

Thus, an amendment to the Ethics Policy was proposed that would keep the notion that employees cannot profit by their travel on behalf of the Board. If there are reimbursements for expenses in connection with travel, they would either be paid directly to PERF or it would be noted on the reimbursement form that those expenses are paid to the vendor. That proposed amendment would read as follows:

9. An employee may not accept payment of expenses for travel, conventions, conferences, or similar activities **from any entity other than the Fund**. The Fund shall pay for travel, registration, and lodging expenses of Fund employees on Fund related business whenever deemed appropriate by the Board of Trustees of the Fund or the Executive Director.

Whenever a Fund employee is a participant or speaker at any event requiring travel, the organization or individual requesting participation of a Fund employee may ~~be requested to reimburse the Fund~~ **pay for travel, registration, and/or lodging on behalf of the Fund when** If the organization or individual requesting participation ~~reimburses~~ **is paying for the travel, registration, and/or lodging of** other speakers/participants, ~~they shall reimburse the Fund~~. When such expenses ~~for travel are paid~~ **reimbursed** by the requester, ~~they reimbursement~~ shall be paid directly to the Fund as determined by prior agreement between the Fund and the requester.

Submitting travel expenses to the Fund for other than Fund business is prohibited. No Fund employee shall accept dual payment for travel expenses.

MOTION duly made and carried to approve the Ethics Policy change as proposed.

Proposed by: Teresa Ghilarducci

Seconded by: Nancy Turner

Votes: 4 for, 0 against, 0 abstentions (Miller absent for vote)

Strategic Planning

Given the fact that the Board has recognized the need to give attention to the service levels rendered by PERF, recommendation was made that the business plan for carrying out the goals and objectives that would drive those efforts over the next few years should be a statement of the Board. In that regard, the

strategic planning process already begun by the Board would seem to be the perfect opportunity to finish the development of such a plan. If the Board felt that was the proper place to handle the matter, the remainder of the strategic planning process could be completed in one day. Additionally, the Teachers' Retirement Fund (TRF) is at exactly the same point in their strategic planning process. Thus, question was raised as to whether the undertaking of a combination effort should be something discussed with TRF. The matter was opened for Board consideration with a consensus opinion that PERF's Executive Director should undertake discussion of a joint strategic planning effort of this nature.

Tuition Reimbursement Plan

Board previously discussed preparing and adopting a tuition reimbursement plan. PERF staff pulled together a wealth of information in that regard and using that information drafted a proposed reimbursement plan for Board consideration. Following discussion of that proposed plan,

MOTION duly made and carried to adopt a tuition reimbursement plan as follows,

Eligible Individuals	Minimum six months as full-time employee
Acceptable Institutions	Subject to approval by Executive Director
Expenses Covered	Tuition
Only Work Related	Yes, as determined by Executive Director
Time of Payment	At completion of the course(s)
Grade Required	C or better or Pass and Fail
Maximum Reimbursement	100%
Miscellaneous	<ul style="list-style-type: none"> ▪ Must remain employee through completion ▪ Must be pre-approved ▪ Offset by other aid
Effective Date	January 1, 2001

Proposed by: Teresa Ghilarducci

Seconded by: Nancy Turner

Votes: 4 for, 0 against, 0 abstentions (Miller absent for vote)

Staff Development

A draft staff development plan was distributed for Board review. Mr. Butler pointed out that PERF's mission is to help participants achieve retirement financial security by providing superior service to participants and employers and enhancing assets by adherence to prudent fiduciary standards. Although the Fund has done a good job on investments, there is a need to expand internal and external audit capabilities. Additionally, customer service capabilities must vastly improve to meet the average benchmarks of other state public funds. PERF is currently unable to meet these objectives because it lacks adequate staff. Therefore, Board approval was sought for the addition of 75 new positions to

PERF's staffing tables over the next twelve months with associated equipment and office space. Recommended additions would include:

Benefits	- 20 employees
Finance	- 15 employees
Investments	- 7 employees
Information Technology	- 10 employees
Administration	- 7 employees
Call Center	- 16 employees

The weight of the distribution with 20 new employees in benefits is consistent with the recognition that service levels are an extremely important matter and one that needs attention. Of equal importance is the finance area with a need for people who can do financial management. The addition of 7 new employees in investments would include investment managers, investment analysts, a compliance officer, and an administrative assistant. Currently, the information technology (IT) system is handled by one individual. The addition of 10 employees in that area is a fairly conservative number for a \$10-13 Million IT department. Filling 7 additional positions in the administrative area would cover the expanded duties in human resources, internal auditing and research and planning. And lastly, 16 additional members for a call center would be consistent for a fund the size of PERF.

Board discussion of the matter ensued. Note was made that these are all areas in which the Fund needs help. However, the Trustees felt they should continue to go through the strategic planning process to include these staffing issues. While there is no question that additional staff is needed, safeguards should be taken with respect to numbers, timing issues, etc. The Trustees did, however, feel comfortable with the Executive Director launching an evaluation of personnel needs in the Fund and bringing those forward to the Board at some reasonable time following the completion of the quality service audit and the strategic planning session.

SIRIS Update

Stage 1 of SIRIS went live on April 2. There were some problems with interest posting over conversion weekend, so SIRIS in its entirety did not go live until April 9. Documents are being scanned and entered into the system in electronic format. The membership record, refund and data change processes are all functioning quite well. The one problem that has been encountered has to do with retirements. The beginning of the retirement process is much more complex because of the Fund's data cleanup issues. So to alleviate the problem and get staff moving with retirements, intensive training sessions will be undertaken. Going forward, the design and build of Stage 2 has begun. That portion of SIRIS will be rolled out in March of 2002.

Backfile Conversion

The backfile conversion project was started in January and stopped due to the bad quality of converted documents. A restart plan was then developed utilizing an improved quality assurance strategy. Four boxes of documents were then shipped to San Antonio, Texas for conversion. Those boxes were returned on April 11, and the quality of the documents was very good. Therefore, the shipment of boxes was resumed at a rate of five boxes per day. The goal is to increase the number of boxes being shipped per day from 5 to 10 so that the duration of the project can be decreased. At this time, the project is scheduled to be completed in May of 2002. Hopefully, that can be moved closer to the first of the year. Once the project is complete, PERF will have a copy of the information for use in daily business operations. Additionally, they will have a platter (CD), microfilm, and paper backup of that information. Thus, there will be a number of options for recovery of the data should it ever be lost.

Telecommunications Assessment

PERF currently utilizes a Centrex telephone system, a group of individual telephone lines with the capability to make and receive calls to each other utilizing abbreviated, usually four digit, dialing. Each Centrex line can be equipped with features such as Call Forwarding, Call Waiting, Call Conferencing, Speed Dialing, Voice Mail, etc. With such a system there are no management controls to provide figures on the number of incoming/outgoing calls, the duration of calls, etc. Additionally, there is not a lot of flexibility with such a system. If changes are needed, they have to be organized through a centralized data processing group, and it can sometimes take up to two weeks to implement those changes. The cost to maintain the system is \$33,000 per year.

A telecommunications assessment project was started in November 2000 with the engagement of Ballou Consultants, Inc. (BCI) from Lancaster, Ohio. Ballou conducted user interviews followed by the issuance of a Request for Information (RFI). This document was intended to enable BCI to ascertain whether replacement of the existing Centrex system with an owned, premise-based telecommunications arrangement would be beneficial and cost effective. Following PERF review/approval, the RFI was issued to three vendors who represent the major large system telephone system manufacturers. Following receipt of those RFI's, Ballou issued their findings (report on file) by concluding that a premise-based solution provides the best opportunity for implementing a new service discipline, state-of-the-art call center technology, advanced cost control, real-time reporting and administrative capability required for total system management.

Following further discussion of the Ballou report,

MOTION duly made and carried to authorize PERF staff to proceed with the issuance of a Request for Proposal for a premise-based telecommunications system, subject to discussion with the Teachers' Retirement Fund concerning the coordination of a joint effort in this matter.

Proposed by: Nancy Turner

Seconded by: Jonathan Birge

Votes: 4 for, 0 against, 0 abstentions (Miller absent for vote)

4. LEGISLATIVE UPDATE

Mary Beth Braitman provided an update on pending legislation as follows:

➤ **Senate Bill 107 – Public Pensions**

Provides confidentiality clauses for PERF records. Clarifies that members may contribute up to 10% under the new voluntary contributions program. Also implements a Social Security earnings limit for early retirees with no limitation for normal retirees.

➤ **Senate Bill 260 – Pension Relief Fund Distributions**

This bill is currently on its way to the Governor for signature. The bill provides that distributions from the Pension Relief Fund to local units of government shall be made in a particular year based on estimates of pension liabilities in the ensuing year. It also requires that PERF maintain accounts for each city/town into which a unit may make deposits and withdraw one time each year all or a portion of the balance in the account to pay pension benefits under the old police and fire funds.

➤ **Senate Bill 524 – Police & Firefighter Pension Distributions**

Provides that, in calendar years 2002 through 2012, interest on the public deposit insurance fund is to be distributed to units of local government in proportion to payments made by each unit for benefits under the old police and fire funds. The bill was amended to also provide that the PERF Board must adopt rules establishing procedures for making loans to a participant in the Legislators' Retirement System.

➤ **Senate Bill 562 – Venture Capital Investments**

This bill is now dead. In lieu thereof Senate Concurrent Resolution No. 79 has been proposed wherein the Teachers' Retirement Fund and PERF are

encouraged to allocate a part of their investment portfolios to private equity funds.

➤ House Bill 1193 – Unused Leave of State Employees

Provides that provisions shall be adopted in a defined contribution plan for the purpose of converting unused excess accrued leave to a monetary contribution for employees of a State agency. It is anticipated this bill will come out of conference next week.

➤ House Bill 1600 – PERF Board of Trustees

The bill originated to provide cardiopulmonary resuscitation training in high schools and was amended to increase the number of members on the PERF Board of Trustees from 5 to 13. That amendment has been struck. The bill does still contain language directing the PERF Board of Trustees to transfer the fund account of a county-funded hospital that is sold to a private entity to the fund account of the county that funded the hospital and to add the transferred amount to the county's fund account.

➤ House Bill 1667 – State Employee Retirement

Specifies that a retired member of the Legislators' Retirement System who is receiving a salary from the State may not also receive a retirement benefit. Also provides that a member of the System may make a retirement fund investment selection or change any existing selection at least once each quarter.

This bill was also amended to provide that an employer may elect to permit former employees and their spouses (including surviving spouses) to continue participation in certain group health insurance benefits after the former employee or the spouse becomes eligible for Medicare.

➤ House Bill 1815 – PERF & TRF COLA

This bill originated to provide a traditional COLA, a thirteenth check, and some changes to the Prosecuting Attorneys' Retirement Fund. The bill was stripped in the Senate and now contains only the 13th check and the Prosecuting Attorneys' Fund changes. The prognosis on this bill is that it may move the way it is, leaving the question of a COLA to the budget. Or, efforts may be undertaken to insert some sort of a compromise COLA.

5. POLICE & FIRE

Pursuant to the Board's resolution regarding the process for reviewing applications for line-of-duty death benefits, on March 14, 2001, the 1977 Fund Advisory

Committee met in executive session to review two applications and to make recommendation to the PERF Board as follows:

Name	Circumstances of Death	Advisory Committee Vote
Aaron M. Schoffstall	Vigo County Sheriff's Corrections Officer, killed in fall from bridge while assisting with traffic control at scene of accident.	Pay benefit (unanimous vote)
Warren J. C. Smith	Indianapolis Fire Department dive team member killed in training accident.	Pay benefit (unanimous vote)

MOTION duly made and carried to accept the 1977 Police & Fire Advisory Committee's recommendations in the line-of-duty death determinations as noted.

Proposed by: Nancy Turner

Seconded by: Teresa Ghilarducci

Votes: 3 for, 0 against, 0 abstentions (Birge and Miller absent for vote)

The Trustees were also updated on the matter of the City of Plymouth vs. PERF. This issue began in 1996 when a police officer with the City of Plymouth applied for disability with the local board and was granted a Class 3 disability. The officer appealed that decision to the Police & Fire Fund, and the disability was upgraded to a Class 2. The City of Plymouth asked for judicial review in Marshall County Superior Court. The Attorney General's Office represented PERF through that hearing and filed for Motion to Dismiss based upon the City of Plymouth not having standing. The Court of Appeals decided that the City did, indeed, have standing, but the Supreme Court decided not to rehear the case. So the case has been sitting in the Marshall County Superior Court since 1998 with nothing being done. One of the local county attorneys recently contacted PERF to say they will be pursuing this case and that they have contacted the Attorney General. A pretrial hearing is to be scheduled and should be conducted anytime within the next month or two.

6. ACTUARIAL

Valuation Reports

Doug Todd presented executive summary reports (reports on file) for the Prosecuting Attorneys' Retirement Fund, Judges' Retirement System, and the 1925, 1937 and 1953 Municipal Police and Fire Pension Plans.

Discussion began with the Prosecuting Attorneys' Fund. This tends to be an unstable plan in that there tends to be a lot of turnover with people coming in and out. The unfunded liability rose from \$3,534,482 in 1997 to \$5,389,421 in 1999 and dropped in 2000 to \$4,161,682. Cost as a percent of payroll has exhibited a reasonable increase from 2.3% in 1997 to 2.8% in 2000. Return on assets in 2000 was 5.0%, but the actuarial value return on assets was 7.1%

Moving to the Judges' Retirement System, Mr. Todd noted that this plan's funding level is a little less than would be desired. It is, however, in pretty good shape. The number of active participants has stayed fairly level in recent years. The unfunded liability of the plan rose over a two-year period and then dropped from \$85,228,571 in 1999 to \$78,715,197 for 2000. Return on assets in 2000 was 5.8% with the actuarial value return on assets being 7.8%.

With respect to the pre-1977 Municipal Police & Fire Pension Plans, the January 1, 1999 valuation reflected the transfer of nonactive converted members as of July 1, 1998 to the 1977 Fund. As a result, there were dramatic changes in valuation numbers. Annual benefits dropped from \$162,569 in 1998 to \$150,707 in 1999. Actuarial accrued liability dropped from \$3,693,325 to \$3,353,041. After 1999 the plan resumed its normal course with annual benefits rising from \$150,707 in 1999 to \$159,408 in 2000. Likewise actuarial accrued liability rose from \$3,353,041 in 1999 to \$3,385,472 in 2000. Other than pension relief funds, there are no assets in this plan. Therefore, the accrued liability is the unfunded liability.

Employer Contribution Rates

A list of recommended municipality employer contribution rates (copy on file) was distributed for review.

Following discussion,

MOTION duly made and carried to approve the municipality contribution rates as recommended by PERF's actuary.

Proposed by: Nancy Turner
Seconded by: Teresa Ghilarducci
Votes: 3 for, 0 against, 0 abstentions (Birge and Miller absent for vote)

MOTION duly made and carried to approve the State's contribution rate at 5% as recommended by PERF's actuary.

Proposed by: Nancy Turner
Seconded by: Teresa Ghilarducci
Votes: 3 for, 0 against, 0 abstentions (Birge and Miller absent for vote)

7. INVESTMENTS

Alternative Investment Consultant

PERF staff is recommending the engagement of an organization to help in the analysis of responses received to the Fund's Request for Proposal for alternative investment consultant services. Because the Fund is seeking purely consulting services, not management services, there is not a lot of quantitative material to look at. There is a lot of qualitative information that needs review, and PERF does

not have staff nor time to do that. Specifically, the firm of Cooper Consultants has been selected for Board consideration.

Cooper Consultants is a professional firm that provides custom information and consulting services to large institutional investors. Their primary focus is to evaluate, monitor and assist in the selection of top-tier institutional investment consulting firms. They are an independent firm and act in a fiduciary capacity and adhere to the Association of Investment Management and Research's (AIMR) Code of Ethics and Standards of Professional Conduct. PERF would be Cooper's first assignment for an alternative investment consultant search --- their expertise is in general consultants. However, staff feels their expertise would be helpful in terms of evaluating firms from an independent standpoint.

Following some discussion of the matter,

MOTION duly made and carried to approve the engagement of Cooper Consultants and to authorize the Investment Committee to act upon Cooper's recommendation of a potential alternative investment consultant.

Proposed by: Teresa Ghilarducci

Seconded by: Nancy Turner

Votes: 3 for, 0 against, 0 abstentions (Birge and Miller absent for vote)

Investment Policy Revisions

At the March 9 meeting of the Board of Trustees, the Investment Policy was amended to approve the use of American Depositary Receipts (ADRs) and Global Depositary Receipts (GDRs) in international portfolios. However, the wording used in that amendment limited the use of ADRs to some portfolios but not all international portfolios. Therefore, recommendation was made to further amend the Investment Policy to permit the use of ADRs/GDRs in all international portfolios.

MOTION duly made and carried to amend PERF's Investment Policy as follows:

International Equity Management

p. 24 Core Index Management

Description: Investment in a portfolio of equity securities of companies domiciled outside the United States and listed on foreign exchanges that substantially matches the composition and characteristics of the market index benchmark.
Investment in ADRs (American Depositary Receipts) and GDRs (Global Depositary Receipts) is permitted.

p. 24 Core Enhanced Index Management

Description: Investment in a portfolio of equity securities of companies domiciled outside the United States and listed on foreign exchanges that substantially matches the composition and characteristics of the market index benchmark. **Investment in ADRs (American Depositary Receipts) and GDRs (Global Depositary Receipts) is permitted.** However, portfolios are expected to vary in terms of number of securities held and, from time to time, vary *modestly* from the index as measured by the statistical characteristics (e.g., country allocation, average capitalization, industry or sector, price to earnings ratio, price to book ratio, dividend yield) of the portfolio.

Proposed by: Teresa Ghilarducci

Seconded by: Nancy Turner

Votes: 3 for, 0 against, 0 abstentions (Birge and Miller absent for vote)

An additional Policy revision was recommended to permit the use of 144A securities in fixed income portfolios. Following discussion,

MOTION duly made and carried to further amend PERF's Investment Policy as follows:

Fixed Income Management

p. 27 Core-Enhanced Index

Investment Constraints: No securities may be held other than those which are publicly traded, dollar denominated debt securities of the US government, its agencies and municipalities, ~~and~~ US corporations, **and Yankees** which exhibit characteristics consistent with the quality of the benchmark index, unless specifically approved by the Board. **Rule 144A securities that are included in the benchmark may be purchased, as well as those that are not included in the index, but meet the index liquidity constraints, have similar characteristics to the index 144A securities, and are issued by a public company.** Futures contracts may be used for the purpose of investing cash flows or modifying duration, but in no event may leverage be created by any individual security or combination of securities.

Proposed by: Teresa Ghilarducci

Seconded by: Nancy Turner

Votes: 3 for, 0 against, 0 abstentions (Birge and Miller absent for vote)

Hughes Capital Management

On December 16, 1997, Hughes Capital Management purchased 500,000 Southern California Edison (SCE) securities with an 18 month maturity. These securities were purchased at \$98.44 and have recently been quoted in the \$82-\$90 range. SCE has entered into an agreement to sell part of their facility to the State of California. It is not anticipated that SCE will go into bankruptcy, but even if they do, these are first mortgage bonds, and there are more than enough assets to cover the bonds. Hughes Capital has requested authority to continue holding these bonds until maturity. Because the securities have fallen below guidelines, to do so would take Board action.

MOTION duly made and carried to authorize Hughes Capital Management to continue to hold the bonds of Southern California Edison until maturity or until recovery of the market, at which time Hughes may choose to sell the securities.

Proposed by: Nancy Turner
Seconded by: Teresa Ghilarducci
Votes: 3 for, 0 against, 0 abstentions (Birge and Miller absent for vote)

Transition Management Services

With the recent retention of GE Asset Management and Capital Guardian as international equity managers, staff looked at the idea of retaining a transition manager to handle the conversion of assets from the S&P 500 to EAFE portfolios. A transition manager would be responsible for taking securities obtained from Barclays Global Investors, selling those S&P securities and then purchasing the securities GE and Capital Guardian would like in their portfolios. The use of a transition manager in this manner would save the Fund considerable money in transition fees.

MOTION duly made and carried to grant authority to employ a transition manager to effect transition from the S&P 500 Index Fund.

Proposed by: Teresa Ghilarducci
Seconded by: Nancy Turner
Votes: 3 for, 0 against, 0 abstentions (Birge and Miller absent for vote)

Securities Lending

At its March 9 meeting, the Board of Trustees asked that Wm. M. Mercer look at the Fund's securities lending program and specifically address the risks associated with securities lending. Pursuant to that request, Mercer reviewed the securities lending analysis it conducted in 1999 and program changes made in 2000 and 2001 to date. Mercer concluded that securities lending is a good way to add incremental income and defray costs of the Fund, but there are some very real issues that should be addressed. The Board has established very good guidelines

in addressing the risks identified. However, one of the key issues is the frequency of monitoring and being able to understand, on a daily basis, what the individual banks are doing and what risks they are taking on behalf of the Fund. In the event there is an issue, the Fund should be aware of that right away. Thus, Mercer believes that the policies in place, the procedures and the risks parameters make sense, but monitoring needs to be done on a more active basis with more direct contact with Chase Manhattan and Bank One in order to ensure compliance and an understanding of what they are doing. Mercer will undertake further discussion of this matter at the May meeting of the Board of Trustees.

8. NEXT MEETING

The next meeting of the Board was previously scheduled for May 18, 2001.

9. ADJOURNMENT

There being no further business, the meeting was adjourned. An Executive Session of the Board followed.